

This record is a partial extract of the original cable. The full text of the original cable is not available.

C O N F I D E N T I A L SECTION 01 OF 03 AMMAN 000652

SIPDIS

E STAFF FOR CADE  
TREASURY FOR OASIA -- A. DEMOPULOS

E.O. 12958: DECL: 01/26/2009

TAGS: [EFIN](#) [PGOV](#) [EAID](#) [PREL](#) [JO](#)

SUBJECT: JORDAN PM PLEDGES CONTROVERSIAL TAX AND PRICE  
HIKES; PARLIAMENT CRIES FOUL

REF: AMMAN 72

Classified By: David Hale, CDA. Reasons 1.5 (b) and (d).

[11.](#) (C) Summary. With unusual candor, Prime Minister Faisal al-Fayez publicly announced oil product price and tax hikes to take effect later this year. Although Fayeze softened the blow by announcing public pay increases and blaming previous governments and external forces, his political honeymoon is probably at an end: he will likely be subjected to increasing criticism in Parliament and publicly as the annual budget debate begins. While we expect the tax and price hikes to go through, the government's victory will come at the expense of its popularity, particularly given a public mood of impatience with economic reform and austerity. End Summary.

-----  
PM PROPOSES TAX, PRICE INCREASES  
-----

[12.](#) (C) In a January 19 speech to a special meeting of Parliament's lower house, Prime Minister Faisal al-Fayez went public with the tax and price hikes contained in the government's 2004 draft budget (see para 9). With frankness unusual in Jordanian politics, Faisal made it clear that -- as committed to the United States and the IMF -- Jordan would increase petroleum product prices and the sales tax base and rate in order to help maintain the 2004 fiscal deficit at the equivalent of 3.9% of GDP. The speech, and the negative reaction to it inside and outside of Parliament, may mark the beginning of the end of the political honeymoon Fayeze has enjoyed since October and the beginning of an increasingly contentious debate over economic policy, including privatizations and other reforms.

[13.](#) (C) The Prime Minister's remarks brought closer to a boil the simmering debate over the distribution of economic wealth and gains in a society still burdened by high poverty and unemployment. Economic reforms sponsored by King Abdullah have been slow in making a tangible difference in the daily lives of most Jordanians, who have lived with austerity since the deep financial crisis of 1989. Thus, the PM faces the political challenge of convincing a skeptical society that continuing sacrifices will eventually pay off. Convincing Parliament -- which over-represents "traditional" constituencies that have historically relied on government handouts, contracts and jobs -- is even tougher.

[14.](#) (C) While open about the planned fiscal measures as being "in the best interest of the country," the PM softened the blow by promising modest increases in government salaries (\$14 for those earning less than \$280 per month, and \$7 per month for those earning between \$280 and \$420). In addition, he said that increases would be phased-in over the first half of the year "in accordance with the King's directives" (but as already planned in the budget, see ref). In an effort to share responsibility, Fayeze portrayed this phasing as a softening of "previous governments' commitments to international aid agencies and donors." (Earlier in the speech he had also made the backhanded suggestion that the measures had been imposed from outside, averring, "These measures are not dictated, as some may think, by international monetary organizations.")

-----  
PARLIAMENT SAYS "NO" IN PUBLIC, "MAYBE" IN PRIVATE  
-----

[15.](#) (C) Fayeze's effort to soften the blow fell flat in Parliament and with the public. Out of 67 of lower house members attending the special meeting, 45 voted in favor of a non-binding "sense of the house" resolution against the new measures. Members' speeches and public commentary almost uniformly fell back on populist rhetoric and condemned the measures as impositions on the poor, although some said they would accept higher taxes on "luxury goods." Most, like the chairman of the Finance Committee, attributed the increases to "foreign pressure."

[16.](#) (C) Populist MP Mumdouh Abbadi, leader of a parliamentary bloc of eleven votes, publicly threatened that

his bloc would vote against the budget if the price and tax increases went into effect. Abbadi told PolCouns that neither the PM nor government ministers had consulted with MPs to prepare them for the price and tax hike announcement. By presenting the hikes in front of the Parliament, Abbadi argued, Fayeze "tried to shift blame on us (MPs)." (He asserted that the government had not even previewed the PM's speech with Lower House Speaker Abd ul-Hadi Majali.) This "forced" Abbadi to threaten to vote against the budget "to show the people that we understand their problems." Abbadi said his threat was also intended to get the government to "deal with us" on the specifics of price and tax hikes. In the final analysis, Abbadi concluded, MPs understand the poor financial state of the GOJ and "if the government is willing to talk to us and compromise," it will get what it needs.

-----  
COMMENT  
-----

17. (C) The PM's approach was in keeping with his emphasis on transparency and consultation, and his briefing was in response to a request from Islamist MPs for a presentation from the PM on the budget. If he wished to maintain his credibility, Fayeze had no choice but to provide an honest account. As he told the Ambassador moments before his appearance in Parliament, Fayeze was well aware that his popularity would suffer -- and outcome he far from relished.

18. (C) The 2004 budget debate, behind schedule but set to begin in the full house the week of February 8, will contain the promised rhetorical fireworks. While we remain certain that the government and King are committed to the fiscal measures Fayeze described, it will not be easy days for them. Even supporters of fiscal rectitude are critical of how the government is handling the issue politically. A former finance minister, for instance, told the Ambassador that the government was "stupid" to spark a debate at this juncture and then seek to pass off responsibility to "previous governments" and the King. Private criticism from MPs has focused not on the price/tax hikes themselves, but on the feeling that the GOJ sprang the topic on them without warning or consultation. (While in fact, Fayeze was responding to MP's demands for a briefing on the budget -- they were perhaps unaccustomed to a frank account from a sitting PM.)

19. (C) On the other hand, the PM's transparency will give the public and Parliament several months to get used to the idea before the increases transpire, thereby hopefully avoiding the public demonstrations the government dreads. In addition, Fayeze may have built some room for "negotiation" into his speech: he said the basic sales tax rate would increase to 16%, while the Finance Minister had earlier told us that he was planning on an increase to 15% (ref). Nonetheless, it is worth recalling that the politics of economic reform in Jordan are far from easy: the King and his government are taking real risks for the policies he (and we) support.

10. (SBU) Note: Fiscal Measures mentioned by Fayeze:

-- 9% Average increase in consumer prices in fuel products, including:

-- Increase in butane gas from 3 JD to 3.5 JD/cylinder.

-- Increase in price per liter of super gasoline from JD0.300 to JD0.325.

-- Increase in price per liter of regular gasoline from JD0.350 to JD0.375.

-- Increase in price per liter of diesel from JD 0.350 to JD 0.375

-- Increase in price per liter of kerosene from JD 0.350 to JD 0.375

-- Increase in basic General Sales Tax (GST) rate from 13% to 16%.

-- Increase in lower GST rate (for food, clothing and other basic consumables) from 4% to 6%. Also, some items would be moved from the lower GST rate to the higher rate.

-- Imposition of 6% sales tax on alcohol and tobacco products.

-- Monthly pay increase of JD10 for civil servants earning less than JD200 per month.

-- Monthly pay increase of JD5 for civil servants earning between JD200 and JD300 per month.

-- Increase in coverage of National Aid Fund (which provides

income assistance to those below poverty line).  
HALE